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Japan's Trade Surplus Sets Record In First Quarter

Japan's trade surplus on a customs-clearance basis soared 73 percent in the first quarter of 1992 to $25 billion, the highest quarterly level in Japanese history (see Tables). For most policymakers in Tokyo the news was perhaps more devastating than it was to those in Washington. Japanese officials fear that the rising global imbalance will fan the flames of protectionist sentiment in the United States and elsewhere. For their part some American officials may take the latest figures to mean that the stated Japanese objective of trying to reduce its huge aggregate trade surplus has not been sincere.

Both sides, however, might agree that Japan's expanding trade imbalance raises difficult questions of international macroeconomic policy coordination — especially when put in the context of developments since early 1991, a year in which trade imbalances were heavily influenced by the fact that Japan and its trading partners were in different phases of the business cycle. In the first half of last year Japan's exports to the United States were flat at best, while imports from this country dropped in yen terms but rose in dollars compared to the same period a year earlier. As a result, the bilateral surplus declined by both the dollar and the yen measure. These trends reflected the fact that

Table 1: **Japan's Total Trade in Dollar Terms**

(in millions of dollars)

		Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1987		$229,221	9.6%	$149,515	18.3%	$79,706
1988		264,917	15.6	187,354	25.3	77,563
1989		275,175	3.9	210,847	12.5	64,328
1990		286,948	4.3	234,799	11.4	52,149
1991		314,526	9.6	236,737	0.8	77,789
1990:	I	66,705	-2.2	54,383	6.3	12,322
	II	67,232	-0.5	53,954	5.2	13,278
	III	72,189	3.7	56,547	6.6	15,642
	IV	80,822	15.9	69,914	26.3	10,908
1991:	I	76,338	14.4	61,869	13.8	14,469
	II	73,992	10.1	56,283	4.3	17,709
	III	79,065	9.5	57,097	1.0	21,968
	IV	85,131	5.3	61,487	-12.1	23,644
1992:	I (p)	82,388	7.9	57,356	-7.3	25,032

Table 2: **Japan's Total Trade in Yen Terms**

(in billions of yen)

		Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1987		¥33,315	-5.6%	¥21,737	0.9%	¥11,578
1988		33,939	1.9	24,006	10.4	9,933
1989		37,823	11.4	28,979	20.7	8,844
1990		41,457	9.6	33,855	16.8	7,602
1991		42,360	2.2	31,900	-5.8	10,460
1990:	I	9,766	12.2	7,941	21.9	1,825
	II	10,449	13.3	8,392	19.9	2,057
	III	10,651	7.5	8,364	10.8	2,287
	IV	10,592	6.1	9,159	15.7	1,433
1991:	I	10,183	4.3	8,257	4.0	1,926
	II	10,225	-2.1	7,775	-7.4	2,450
	III	10,853	1.9	7,846	-6.2	3,007
	IV	11,097	4.8	7,998	-12.7	3,099
1992:	I (p)	10,513	3.2	7,303	-11.6	3,210

Table 3: **Japan's Trade with the United States in Dollar Terms**

(in millions of dollars)

		Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1987		$83,580	3.9%	$31,491	8.4%	$52,090
1988		89,634	7.2	42,037	33.5	47,597
1989		93,189	4.0	48,246	14.8	44,943
1990		90,322	-3.1	52,369	8.5	37,954
1991		91,538	1.3	53,317	1.8	38,220
1990:	I	21,661	-4.7	12,753	9.9	8,908
	II	20,938	-9.0	12,861	6.6	8,077
	III	22,933	-4.9	12,729	2.1	10,204
	IV	24,790	6.2	14,025	15.7	10,765
1991:	I	22,311	3.0	13,268	4.0	9,043
	II	20,304	-3.0	13,464	4.7	6,840
	III	23,719	3.4	13,185	3.6	10,534
	IV	25,205	1.7	13,401	-4.4	11,804
1992:	I (p)	22,746	1.9	13,458	1.4	9,288

Table 4: **Japan's Trade with the United States in Yen Terms**

(in billions of yen)

		Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1987		¥12,148	-10.4%	¥4,582	-6.8%	¥7,566
1988		11,487	-5.4	5,388	17.6	6,099
1989		12,816	11.6	6,632	23.1	6,184
1990		13,057	1.9	7,586	14.4	5,471
1991		12,324	-5.6	7,191	-5.2	5,133
1990:	I	3,171	9.4	1,862	26.0	1,309
	II	3,254	3.7	2,000	21.4	1,254
	III	3,384	-1.5	1,885	6.3	1,498
	IV	3,249	-2.8	1,838	6.1	1,411
1991:	I	2,977	-6.1	1,770	-4.9	1,207
	II	2,806	-13.8	1,860	-7.0	946
	III	3,255	-3.8	1,812	-3.9	1,443
	IV	3,287	1.2	1,749	-4.8	1,538
1992:	I (p)	2,902	-2.5	1,717	-3.0	1,185

Japan's economy was still expanding, while the United States was in the grip of a recession. However, dollar-denominated shipments to this country were up a modest 1.9 percent during the January-March 1992 quarter, possibly reflecting rising demand in this country. At the same time Japanese imports from the United States managed a slight 1.4 percent gain as measured in dollars, leaving the dollar-denominated bilateral surplus 2.7 percent larger than a year ago, although the yen-denominated bilateral surplus showed a decline of 1.8 percent.

On a worldwide basis Japanese imports were down a sharp 7.3 percent in dollar terms in the first quarter from a year earlier, reflecting the slowdown in the Japanese economy. Exports were up 7.9 percent. In short, given the linkage between overall economic growth and rising imports, the numbers suggest that Japan's trading partners, including the United States, were in the midst of a modest recovery, while the domestic economy still was deteriorating in the January-March period. A relatively strong overall U.S. export performance has received partial credit for the still-fragile economic recovery in this country. However, the continued weakness in the Japanese economy suggests that the role played by America's second-largest trading partner in the U.S. rebound has been, and is likely to remain, small.

Japan's apparently minimal effect on the performance of the American and European Community economies is unlikely to dissuade officials in Washington and Brussels from pressing their trade demands in Tokyo. Neither American nor European policymakers are likely to stand by idly while, in their view, Japan exports its recession to its trading partners by means of smaller imports and larger exports. The Bush administration already has served notice that the state of the Japanese economy is likely to be high on the agenda at the April 26 meeting in Washington of finance ministers and central bankers from the Group of Seven industrial nations. Japan's G-7 partners are likely to press Tokyo to take a more activist approach toward stimulating the economy. The measures announced to date — consisting primarily of a program of accelerated (but not increased) public works spending and a 0.75 percentage point cut in the discount rate — are seen outside Japan as insufficient. (For details of these programs, see *JEI Reports* No. 12B, March 27, 1992, and No. 14B, April 10, 1992.) Many Japanese analysts agree that an expanded stimulative program is likely before the end of the year if the economy does not show signs of improvement. However, even the recently announced initiatives are likely to take at least a few months to stimulate domestic demand enough to draw in more imports; any supplemental program would take still longer. Analysts on both sides of the Pacific are bracing themselves for additional Japanese black ink on the trade front in the coming months.

Douglas Ostrom

Miyazawa Diplomacy To Focus On Northern Territories, Aid To Russia

After more than three decades of hitting a brick wall in direct discussions with Moscow concerning Japan's claims to four Russian-occupied islands north of Hokkaido, Tokyo has decided to turn once more to indirect international suasion to affect progress on this dispute. During an April 28 to May 2 diplomatic swing through France and Germany Prime Minister Kiichi Miyazawa plans to lobby Paris and Bonn to agree to consideration of the so-called Northern Territories dispute at the early July meeting in Munich, Germany of the leaders of the Group of Seven major industrialized democracies. Finance Minister Tsutomu Hata no doubt will pursue a similar strategy when he meets with his G-7 counterparts in Washington at the end of April prior to the semiannual conferences of the International Monetary Fund and the World Bank. Some Japanese political commentators have remarked that G-7 acknowledgement of Japan's territorial claim could give Mr. Miyazawa the upper hand when he meets with Russian President Boris Yeltsin in September to discuss the Northern Territories and other bilateral issues.

This is not the first time Tokyo has put the legitimacy of its territorial claim with the former Soviet Union before the G-7. At last year's summit meeting the Japanese government secured indirect support from the heads of government of the six other participating countries (see *JEI Report* No. 28B,